



*Financial Statements of*

**CROWN HILL FUND**  
**(formerly Crown Hill Dividend Fund)**

*Audited*

*For the year ended December 31, 2008*

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March 27, 2009

**Auditors' Report**

**To the Unitholders of  
Crown Hill Fund**

We have audited the statement of investment portfolio of Crown Hill Fund as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007 and the statements of operations, changes in net assets and cash flow for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

## Financial Statements

### STATEMENTS OF NET ASSETS

As at December 31,	2008	2007
<b>ASSETS</b>		
Investments at market value (Note 4) (Cost 2008: \$9,071,084; 2007: \$7,456,892)	\$ 8,246,393	\$ 8,558,748
Cash and short-term investments	1,949,562	247,061
Dividend and interest receivable	62,564	26,798
	<b>10,258,519</b>	<b>8,832,607</b>
<b>LIABILITIES</b>		
Accrued liabilities	48,015	65,360
Distributions payable (Note 2)	-	56,078
	<b>48,015</b>	<b>121,438</b>
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY (Note 6); GAAP NET ASSETS (Note 3)</b>		
	<b>\$ 10,210,504</b>	<b>\$ 8,711,169</b>
<b>NUMBER OF UNITS OUTSTANDING (Note 5)</b>		
	<b>1,903,247</b>	<b>934,633</b>
<b>NET ASSET VALUE PER UNIT (Note 3); GAAP NET ASSETS (Notes 3 and 5)</b>		
	<b>\$ 5.36</b>	<b>\$ 9.32</b>

SIGNED ON BEHALF OF THE TRUSTEE,

(signed) Wayne L. Pushka  
Director

(signed) Terry Jackson  
Director

The accompanying notes are an integral part of these financial statements.

## Financial Statements

### STATEMENTS OF OPERATIONS

For the year ended December 31,	2008	2007
<b>INCOME</b>		
Dividends (net of withholding taxes – 2008: \$6,958; 2007: \$8,195)	\$ 181,330	\$ 239,825
Interest	52,467	68,313
	<b>233,797</b>	<b>308,138</b>
<b>EXPENSES</b>		
Management fees (Note 8)	44,218	75,717
Legal expense	44,042	1,334
Service fees (Note 8)	22,791	45,483
Board and IRC fees	23,238	29,216
Insurance expense	4,500	18,978
Administrative expenses (Note 8)	49,770	70,595
Custody, valuation and transfer fees	54,704	54,509
Accounting fees	9,672	23,257
Audit fees	20,000	30,056
Regulatory and listing expenses	16,968	21,130
Unitholder servicing expenses (Note 8)	6,065	23,210
	<b>295,968</b>	<b>393,485</b>
<b>NET INVESTMENT LOSS</b>	<b>(62,171)</b>	<b>(85,347)</b>
<b>CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS (Note 4)</b>	<b>(1,926,547)</b>	<b>(1,288,923)</b>
<b>TRANSACTION COSTS (Notes 3, 7 and 10)</b>	<b>(3,000)</b>	<b>(8,442)</b>
<b>NET REALIZED GAIN ON SALE OF INVESTMENTS (Note 4)</b>	<b>293,080</b>	<b>1,552,611</b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>\$ (1,698,638)</b>	<b>\$ 169,899</b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT <sup>(1)</sup></b>	<b>\$ (2.02)</b>	<b>\$ 0.14</b>

<sup>(1)</sup>Based on the weighted average number of units outstanding during the year.

The accompanying notes are an integral part of these financial statements.

## Financial Statements

### STATEMENTS OF CHANGES IN NET ASSETS

For the year ended December 31,	2008	2007
<b>NET ASSETS, BEGINNING OF YEAR</b>	\$ 8,711,169	\$ 15,910,584
<b>INITIAL ADOPTION OF NEW ACCOUNTING POLICY (Note 3)</b>	-	(15,006)
	<b>8,711,169</b>	<b>15,895,578</b>
 <b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	 <b>(1,698,638)</b>	 <b>169,899</b>
<b>CAPITAL UNIT TRANSACTIONS (Note 6)</b>		
Market value of net assets contributed on merger	5,917,994	-
Paid for units redeemed	(2,123,395)	(6,492,277)
 <b>DISTRIBUTIONS TO UNITHOLDERS (Note 6)</b>		
Return of capital	(596,626)	(862,031)
 <b>NET ASSETS, END OF YEAR</b>	 <b>\$ 10,210,504</b>	 <b>\$ 8,711,169</b>

The accompanying notes are an integral part of these financial statements.

## Financial Statements

### STATEMENTS OF CASH FLOW

For the year ended December 31,	2008	2007
<b>CASH FLOW FROM (TO) OPERATIONS</b>		
Net investment loss	\$ (62,171)	\$ (85,347)
Transaction costs	(3,000)	(8,442)
Change in non-cash working capital	(109,189)	(41,985)
	<b>(174,360)</b>	<b>(135,774)</b>
<b>CASH FLOW FROM (TO) INVESTING ACTIVITIES</b>		
Purchase of investments	-	(10,440)
Proceeds from sale of investments	2,845,849	7,243,941
	<b>2,845,849</b>	<b>7,233,501</b>
<b>CASH FLOW FROM (TO) FINANCING ACTIVITIES</b>		
Cash contributed on merger	1,751,033	-
Paid for units redeemed	(2,123,395)	(6,492,277)
Distributions paid	(596,626)	(862,031)
	<b>(968,988)</b>	<b>(7,354,308)</b>
<b>NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS</b>	<b>1,702,501</b>	<b>(256,581)</b>
<b>CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR</b>	<b>247,061</b>	<b>503,642</b>
<b>CASH AND SHORT-TERM INVESTMENTS, END OF YEAR</b>	<b>\$ 1,949,562</b>	<b>\$ 247,061</b>
<b>INTEREST PAID</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

## Financial Statements

### STATEMENT OF INVESTMENT PORTFOLIO (Note 4) As at December 31, 2008

DESCRIPTION	NUMBER OF SHARES	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
<b>CANADIAN EQUITIES</b>				
Algonquin Power Income Fund	43,100	\$ 95,682	\$ 99,561	
Altagas Income Trust	17,200	297,044	295,840	
Arctic Glacier Income Fund	100	79	80	
Bank of Montreal	3,474	182,001	108,458	
Bank of Nova Scotia	3,600	122,778	119,340	
Bell Aliant Regional Communications Income Fund	18,233	463,057	427,929	
Bonavista Energy Trust	13,600	231,200	229,432	
Canadian Tire Corporation	2,800	130,592	120,848	
Canadian Utilities Limited, Class A	3,700	99,971	141,525	
CML Healthcare Income Fund, Class B	9,450	122,188	121,338	
Consumers Waterheater Income Fund	27,700	252,070	257,610	
Emera Inc.	7,550	128,763	167,459	
Enbridge Inc.	3,900	95,641	154,050	
EnCana Corp.	1,886	52,851	107,030	
Enerplus Resources Fund	7,700	179,564	183,722	
EPCOR Power L.P.	20,500	335,380	362,850	
Fort Chicago Energy Partners LP	35,500	251,340	252,760	
Gaz Metro LP	21,900	282,510	286,014	
Great Lakes Hydro Income Fund	23,000	366,850	365,700	
Great-West Lifeco Inc.	5,400	132,462	111,726	
IGM Financial, Inc.	3,800	127,569	134,596	
Imperial Oil Ltd.	2,960	60,264	121,271	
Loblaw Companies Limited	4,800	299,542	167,712	
Macquarie Power & Infrastructure Income Fund	3,800	17,176	17,974	
Manitoba Telecom Services Inc.	4,006	187,566	142,093	
Manulife Financial Corporation	4,510	118,858	93,628	
Molson Coors Canada Inc., Class B	2,908	132,896	169,711	
National Bank of Canada	3,200	140,270	100,128	
Noranda Income Fund, Class A	19,500	74,685	79,365	
Northland Power Income Fund	35,900	418,594	413,927	
Pembina Pipeline Income Fund	23,100	351,120	348,348	
Penn West Energy Trust	13,390	178,087	181,033	
Petro-Canada	2,900	84,927	77,169	
Royal Bank of Canada	3,470	102,860	124,920	
Saputo Inc.	6,500	106,962	143,390	
Sun Life Financial Inc.	3,700	135,729	104,895	
Superior Plus Income Fund	24,600	245,016	266,418	
Thomson Reuters Corp.	4,700	210,033	167,320	
The Toronto-Dominion Bank	2,443	109,048	106,075	
Westshore Terminals Income Fund	9,500	118,484	90,630	
Yellow Pages Income Fund	32,600	195,926	216,138	
<b>TOTAL CANADIAN EQUITIES</b>		<b>7,237,635</b>	<b>7,180,013</b>	<b>70.3</b>

The accompanying notes are an integral part of these financial statements.

## Financial Statements

### STATEMENT OF INVESTMENT PORTFOLIO (continued) As at December 31, 2008

DESCRIPTION	NUMBER OF SHARES	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
<b>U.S. EQUITIES</b>				
3M Co.	2,200	259,405	156,273	
General Electric Company	5,610	238,298	111,986	
Home Depot Inc.	5,600	271,099	159,142	
Intel Corporation	7,200	281,399	130,393	
Johnson & Johnson	2,600	197,248	191,876	
Microsoft Corporation	6,000	215,441	143,992	
Pfizer Inc.	7,900	378,659	172,718	
<b>TOTAL U.S. EQUITIES</b>		1,841,549	1,066,380	10.4
<b>TRANSACTION COSTS (Notes 3 and 7)</b>		(8,100)		
<b>TOTAL INVESTMENTS</b>		\$ 9,071,084	8,246,393	80.7
<b>OTHER ASSETS, NET OF LIABILITIES</b>			1,964,111	19.3
<b>TOTAL NET ASSETS</b>			\$ 10,210,504	100.0

The accompanying notes are an integral part of these financial statements.

## Notes to the Financial Statements

### December 31, 2008

#### 1. THE FUND

##### Establishment of the Fund

The Crown Hill Fund (the “Fund”) is the new name of the combined fund resulting from the merger on December 29, 2008 of Crown Hill Dividend Fund (“CHDF”) and MACCs Sustainable Yield Trust (“MACCs”). CHDF was deemed to be the acquirer fund given the continuation of the CHDF investment objectives and ongoing management of the Fund. The merger was recorded as a reverse acquisition, since MACCs is the continuing fund. All of the assets of CHDF were transferred to MACCs in exchange for units of MACCs and the assumption by MACCs of all of the liabilities of CHDF. The CHDF unitholders then received 1.1742 units of MACCs for each CHDF unit held. The merger was done on a tax-free basis. (see Notes 4, 5 and 7)

The Fund’s units (“Units”) are listed on The Toronto Stock Exchange under the symbol MYT.UN. Crown Hill Capital Corporation is the trustee (the “Trustee”) and manager (the “Manager”) of the Fund.

These financial statements present the summation of the results of operations and changes in Net Assets for CHDF for the period January 1 to December 29, 2008 and for the combined fund for the period December 30 to 31, 2008. The comparative numbers are for CHDF alone.

##### Predecessor Funds

The Crown Hill Dividend Fund was an investment trust established under the laws of the Province of Ontario on May 19, 2004. On May 31, 2004, CHDF completed an initial public offering of 2,500,000 units at \$10 per unit. Subsequently an option granted to the agents was exercised for 193,473 units at \$10 per unit. CHDF’s units were listed on The Toronto Stock Exchange under the symbol PBK.UN. CHDF began operations on May 31, 2004 when it completed its initial public offering. The manager of CHDF was Crown Hill Capital Corporation. Effective June 24, 2005 the name of CHDF changed from Profit Booking Blue Chip Trust to Crown Hill Dividend Fund.

MACCs Sustainable Yield Trust was an investment fund established under the laws of the Province of Ontario on January 28, 2005. On February 18, 2005, MACCS completed an initial public offering of 3,250,000 units at \$10 per unit. Subsequently an option granted to the agents was exercised for 280,000 units at \$10 per unit. The units were listed on The Toronto Stock Exchange under the symbol MYT.UN. MACCs began operations on February 18, 2005 when it completed its initial public offering. The manager of MACCs was MACCs Administrator Inc. On February 1, 2008 Crown Hill Capital Corporation became the manager of MACCs.

#### 2. INVESTMENT OBJECTIVES OF THE FUND

The investment objectives of the Fund are:

- (i) to provide Unitholders with a stable stream of monthly distributions; and
- (ii) to preserve and potentially enhance the Net Assets of the Fund such that the Net Assets per Unit exceeds \$10.

**December 31, 2008**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Adoption of new accounting standards**

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation” and Section 1535, “Capital Disclosures”. Sections 3862 and 3863 establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. There is no impact on the net assets or the results of operations as a result of these new standards. The detailed risks of investing in the Fund are disclosed in Note 9. Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed; see Note 5.

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

**a) Valuation of Investments**

Securities listed on a recognized public stock exchange are valued at their bid price on the valuation date. Securities with no available bid prices and securities that are not listed on an exchange are valued at their estimated fair value as determined by the Manager of the Fund. Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.

**b) Investment Transactions and Income Recognition**

- i. Investment transactions are accounted for on the trade date.
- ii. Interest income and expense are recorded on the accrual basis.
- iii. Dividend income is recorded on the ex-dividend date.
- iv. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

**c) Foreign Exchange**

The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rates prevailing on each valuation date. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the respective dates of such transactions.

## Notes to the Financial Statements

*continued*

**December 31, 2008**

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Distributions

Distributions to Unitholders are recorded by the Fund when declared.

#### e) Transaction Costs

Transaction costs are expensed as incurred.

#### f) Application of CICA Handbook Section 3855

For purposes of preparing its financial statements, the Fund values its investments pursuant to Section 3855 of the CICA Handbook as outlined above in Note 3(a); the resulting net assets balance is referred to as Net Assets. For all other purposes, including the processing of Unitholder transactions, the value of its investments that trade in an active market continues to be determined using the last traded price; the resulting net asset balance is referred to as Net Asset Value. On each valuation date, the Net Asset Value per Unit is computed by dividing the Net Asset Value of the Fund by the total number of its Units outstanding. A reconciliation of Net Asset Value to Net Assets follows:

As at December 31, 2008	Net Assets		Net Assets per Unit	
Net Asset Value	\$	10,253,911	\$	5.39
Difference as a result of adopting Section 3855		(43,407)		(0.03)
Net Assets	\$	<u>10,210,504</u>	\$	<u>5.36</u>

As at December 31, 2007	Net Assets		Net Assets per Unit	
Net Asset Value	\$	8,721,245	\$	9.33
Difference as a result of adopting Section 3855		(10,076)		(0.01)
Net Assets	\$	<u>8,711,169</u>	\$	<u>9.32</u>

#### g) Future Accounting Changes

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP will be replaced by International Financial Reporting Standards (“IFRS”) for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning January 1, 2011. The Fund is currently assessing the impact of IFRS on its financial reporting.

## Notes to the Financial Statements

continued

## December 31, 2008

## 4. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the years ended December 31, 2008 and December 31, 2007:

## Investments at cost

	2008	2007
Investments at cost – beginning of year	\$ 7,456,892	\$ 13,159,623
Transaction costs: adjustment on adoption of Section 3855	-	(21,841)
	7,456,892	13,137,782
Investments made during the year	-	10,440
Investments acquired from MACCs on merger	4,166,961	-
Dispositions during the year, at cost	(2,552,769)	(5,691,330)
Investments at cost – end of year	\$ 9,071,084	\$ 7,456,892

## Change in unrealized appreciation of investments

	2008	2007
Investments at market – end of year	\$ 8,246,393	\$ 8,558,784
Investments at cost – end of year	9,071,084	7,456,892
Unrealized appreciation (depreciation) of investments – end of year	(824,691)	1,101,856
Unrealized appreciation of investments – beginning of year	1,101,856	2,383,944
	(1,926,547)	(1,282,088)
Add back difference in opening market value between bid and closing price		15,006
Less transaction costs in December 31, 2006 cost		(21,841)
Change in unrealized appreciation (depreciation) of investments	\$ (1,926,547)	\$ (1,288,923)

## Net realized gain on sale of investments

	2008	2007
Proceeds of investments sold	\$ 2,845,849	\$ 7,243,941
Cost of investments sold	(2,552,769)	(5,691,330)
Net realized gain on investments	\$ 293,080	\$ 1,552,611

The securities from the former MACCs were acquired at a cost equal to their market value as at the date of the merger, December 29, 2008. The securities from the former CHDF are recorded at historic cost. See Note 7.

## Notes to the Financial Statements

continued

December 31, 2008

## 5. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Unitholders are entitled to retract their Units outstanding on the last business day of each month at an amount equal to (a) the lesser of: (i) 90% of the weighted average trading price of a Unit on the TSX during the preceding 15 trading days and (ii) the closing market price on the TSX on that day, less (b) any retraction costs. As well, the Board of Directors of the Trustee may set a date on which Units will be retracted at the Transactional net asset value per Unit (see Note 3) less any retraction costs.

CHDF is the acquiring fund in the merger so the Unit transactions are done from its perspective. However this is a reverse acquisition since MACCs is the continuing fund. Therefore the CHDF units must be converted, for financial statement purposes, to the equivalent number of MACCs units before the merger. The number of Units issued on the merger, as presented below and the subscription amount as presented in note 6, are shown reflecting MACCs as contributing its securities (see note 4) and other net assets at market value in return for Units.

The following Unit transactions took place during the years ended December 31, 2008 and 2007.

	<b>2008</b>	<b>2007</b>
Balance of Units outstanding – beginning of year	934,633	1,564,951
Units cancelled or redeemed during the year	(272,735)	(630,318)
Balance of Units outstanding – before the merger	661,898	934,633
Units issued to convert from CHDF to MACCs equivalent, at a ratio of 1.1742 :1	115,303	-
Units held by CHDF unitholders	777,201	934,633
Units held by MACCs unitholders	1,126,046	-
Balance of Units outstanding – end of year	1,903,247	934,633

Due to the conversion from CHDF to MACCs, the number of units has been increased, with the result that the Net Assets per Unit has been decreased. The equivalent Net Assets per Unit for December 31, 2007 is \$7.94.

## 6. UNITHOLDERS' EQUITY

Unitholders' equity is comprised of unitholders' capital and retained earnings. The changes in unitholders' capital and retained earnings during the years ended December 31, 2008 and 2007 are summarized as follows:

	<b>2008</b>	<b>2007</b>
Unitholders' capital – beginning of year	\$ 8,605,289	\$ 14,408,712
Redemption of units	(2,509,438)	(5,803,423)
Market value of net assets contributed on merger	5,917,994	-
Unitholders' capital – end of year	\$ 12,013,845	\$ 8,605,289

## Notes to the Financial Statements

continued

December 31, 2008

## 6. UNITHOLDERS' EQUITY (continued)

	<b>2008</b>		<b>2007</b>
Retained earnings – beginning of year	\$ 105,880	\$	1,501,872
Difference in opening fair value between bid and closing price on adoption of Section 3855	-		(15,006)
Results from operations for the year	(1,698,638)		169,899
Distributions to unitholders	(596,626)		(862,031)
Excess of net proceeds over cost of units redeemed (cost of units redeemed over net proceeds of issuance)	386,043		(688,854)
Retained earnings (deficit) – end of year	\$ (1,803,341)	\$	105,880
	<b>2008</b>		<b>2007</b>
Unitholders' capital – end of year	\$ 12,013,845	\$	8,605,289
Retained earnings (deficit) – end of year	(1,803,341)		105,880
Unitholders' equity	\$ 10,210,504	\$	8,711,169

## 7. TAXATION

The Fund qualifies as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the year, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to Unitholders in the year. No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to Unitholders.

As a result of the merger being done on a tax-free basis for the Unitholders, the tax cost of all securities is now the market value of each security as at the date of the merger, December 29, 2008. The total adjusted cost base of all securities of the Fund for tax purposes is \$1,056,000 less than the cost for accounting purposes.

For tax purposes, transaction costs continue to be added to the average cost (for purchases) and reduced from the sale proceeds (for sales). The total of the transaction costs incurred on the purchase of the securities, from the former CHDF, held as at December 31, 2008 is shown as a reduction on the Statement of Investment Portfolio.

## Notes to the Financial Statements

*continued*

**December 31, 2008**

### **8. FUND EXPENSES**

The Fund is responsible for all expenses incurred. All expenses of the Fund are initially paid by the Manager, who is then reimbursed by the Fund in a reasonable amount of time.

Operating expenses include the Manager's Fees, Administrative costs, Unitholder Servicing costs and any other cost directly related to the operation of the Fund. Of these expenses, the Manager is entitled to an annual fee of 0.60% of the Transactional NAV of the Fund, calculated and payable monthly. For the year ended December 31, 2008; this amount totaled \$44,218 (2007 - \$75,717) of which \$2,167 (2007 - \$4,697) was payable at December 31, 2008. Administrative costs for the year totaled \$49,770 (2007 - \$70,595) and consist of a monthly general overhead cost paid to First Paladin Inc., to cover related administrative salaries, employee benefits, general overhead and office supplies.

Unitholder Servicing costs for the year totaled \$6,065 (2007 - \$23,210) which was made up of web site fees and payments to service providers for the filing of press releases and SEDAR filings. Service Fees for the year totaled \$22,791 (2007 - \$45,483) which are trailer fees paid by the Fund to the Unitholders' investment advisors.

### **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Fund's investment activities expose it to various types of risk associated with the financial instruments in which it invests. In addition to the risks of investing in the equity markets generally, the Fund is also subject to other risks, including interest rate risk, currency risk, credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

#### *Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a weekly basis and positions are maintained within established ranges.

The most significant exposure to market risk is from equity securities. As at December 31, 2008, had the prices on the respective stock exchanges for these securities raised (lowered) by 10%, with all other variables held constant, net assets would have increased (decreased) by approximately \$820,000 (approximately 10% of Net Assets). In practice, the actual results may differ and the difference could be material.

## Notes to the Financial Statements

*continued*

**December 31, 2008**

### **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

#### *Currency Risk*

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Statement of Investment Portfolio identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

The Fund invests approximately 15% of the investment portfolio in U.S. securities. At December 31, 2008, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets would have decreased (increased) by approximately \$55,000 (approximately 1.0 % of Net Assets). In practice, the actual results may differ and the difference could be material.

#### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments.

The Fund invests in equity securities. Cash and short-term investments earn minimal interest. Therefore as at December 31, 2008 the Fund did not have any significant exposure to interest rate risk.

#### *Credit Risk*

Credit risk is the risk than an issuer or a counter party will be unable or unwilling to meet a commitment that it has entered into with the Fund. All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund invests in equity securities. Cash and short-term investments are held by the custodian. Therefore as at December 31, 2008, the Fund did not have any significant exposure to credit risk.

#### *Liquidity Risk*

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. The Fund is exposed to a monthly redemption of units at which time the units of the Fund are redeemed at the current Transactional NAV per unit. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed.

The Fund's investments are considered readily realizable and highly liquid. Therefore, as at December 31, 2008, the Fund's liquidity risk is considered minimal.

## Notes to the Financial Statements

*continued*

**December 31, 2008**

### **10. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS**

The brokerage commissions fees paid for the year were \$3,000 (2007 - \$8,442). The commissions were incurred solely for order execution services. The Fund does not pay any soft dollar commissions.

### **11. SUBSEQUENT EVENTS**

On January 23, 2009, the Fund merged with Fairway Diversified Income and Growth Trust ("Fairway"). The Fund is the acquirer and also the continuing fund. Each unitholder of Fairway received 1.30587 units of the Fund in exchange for each unit of Fairway. At the time of the merger, Fairway had a Net Asset Value of \$32,512,000.

On January 20, 2009, the Fund made a loan to the parent of Crown Hill Capital Corporation in the amount of \$995,000 to enable it to complete the acquisition of 2193322 Ontario Inc., the manager and trustee of Fairway, so as to be able to effect the merger of the funds. The loan is secured by the assets of Crown Hill Capital Corporation and bears interest at prime plus 2%, which is to be calculated and paid monthly. The will be repaid in equal monthly principal payments of approximately \$20,000 beginning in February 2009.

Prior to this merger, the Manager appointed Robson Capital Management Inc. ("Robson") as investment manager of the Fund.